



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**September 18, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The State National Bank in West  
Charter Number 13022**

**100 North Main Street  
West, TX 76691**

**Comptroller of the Currency  
San Antonio North  
10101 Reunion Place Boulevard, Suite 402  
San Antonio, TX 78216**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## INSTITUTION'S CRA RATING

*This institution is rated "Satisfactory."*

- The State National Bank's (SNB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio is satisfactory and has averaged 28% for this evaluation period. Such performance is reasonable given the available loan demand in the AA.
- A majority of SNB's loans are within its AA.
- SNB has demonstrated a willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- There have been no complaints with respect to SNB's CRA performance.

## DESCRIPTION OF INSTITUTION

SNB is a rural community bank located in West, Texas, which is approximately 20 miles north of Waco and 20 miles south of Hillsboro. The bank operates one main office with a drive-through facility.

As of June 30, 2007, SNB had total assets of \$45.7 million with 25% centered in the loan portfolio. The bank's primary loan products include consumer, residential, commercial, and agricultural loans. The following table details a breakdown of SNB's loan portfolio as of June 30, 2007.

Loan Type	Dollar Amount (000's)	% of Total Loans
Commercial and Industrial	3,261	28.3
Consumer	2,662	23.1
Agricultural Production	2,129	18.5
Real Estate (RE) Nonfarm Nonresidential	1,797	15.6
RE Residential (1-4)	1,461	12.7
RE Farmland	129	1.1
Other	78	.6
Real Estate (RE) Construction	13	.1
Total	11,530	100.0

\*Source: Statement of Condition and Income

The bank is locally owned with three families owning the majority of the bank's shares. SNB shares

common ownership with CentraBank, Corp., and Ennis Bancshares, Inc.

Complete banking services are provided Monday through Friday at the one office. The bank also offers a 24-hour telephone banking service. SNB's primary competitor is one other local bank. However, there is strong competition for residential lending and automobile financing from financial institutions and mortgage companies in the neighboring city of Waco, Texas.

Based on its financial condition, the local economy, product offerings, competition, and prior performance; SNB has the ability to meet the various credit needs in its community. The bank was rated "Satisfactory" at the last CRA examination in August 2003. No legal impediments or other factors hinder SNB's ability to provide credit in its AA.

## DESCRIPTION OF ASSESSMENT AREA

Management has designated the northern portions of McLennan County and the southern portions of Hill County as the bank's AA. This AA includes six contiguous census tracts surrounding the community of West. The census tracks located in McLennan County are part of the Waco Metropolitan Statistical Area (MSA), while the Hill County census tracts are not located in an MSA. Due to different median family income levels, we segmented SNB's service area into both MSA and non-MSA AAs. SNB's AAs do not arbitrarily exclude low- and moderate-income geographies. A review of SNB's lending practices revealed no evidence of illegal discrimination. The two tables below contain specific demographic data for the MSA and non-MSA AAs.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF MSA - AA</b>	
<b><i>Population</i></b>	
Number of Families	3,750
Number of Households	4,890
<b><i>Geographies</i></b>	
Number of Census Tracts	3
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<b><i>Median Family Income (MFI)</i></b>	
2000 MFI for AA	\$41,455
2005 HUD-Adjusted MFI	\$47,800
2006 HUD-Adjusted MFI	\$49,100
<b><i>Economic Indicators</i></b>	
Unemployment Rate	1.4%
2007 Median Housing Value	\$69,256
% of Households Below Poverty Level	9.8%

The bank's MSA AA is comprised of 3 contiguous census tracts located in the northern portion of McLennan County. Based on the 2000 Census data, all 3 are designated as upper-income areas.

The population of the AA is approximately 5 thousand. Of the 3,750 families located within the AA, 15% are designated as low-income, 16% as moderate income, 25% as middle-income, and 44% as upper-income families. Approximately 10% of AA households live below the poverty level. Communities within this AA include Elm Mott, West, Ross, and Gholson.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF NON-MSA AA</b>	
<b><i>Population</i></b>	
Number of Families	2,714
Number of Households	3,607
<b><i>Geographies</i></b>	
Number of Census Tracts	3
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	67%
% Upper-Income Census Tracts	33%
<b><i>Median Family Income (MFI)</i></b>	
2000 MFI for AA	\$36,380
2005 HUD-Adjusted MFI	\$42,000
2006 HUD-Adjusted MFI	\$43,100
<b><i>Economic Indicators</i></b>	
Unemployment Rate	2.4%
2007 Median Housing Value	\$60,348
% of Households Below Poverty Level	14.5%

The bank's non-MSA AA is comprised of 3 contiguous census tracts located in the southern portion of Hill County and are comprised of middle- and upper-income areas only. Of the 2,714 families located within the AA, 18% are designated as low-income, 16% as moderate-income, 21% as middle-income, and 45% as upper-income. Approximately 15% of AA households live below the poverty level. Some of the communities located within this AA include Whitney, Aquilla, Hillsboro, and Malone.

The local economy is heavily dependent on the agricultural industry; however, close proximity to Waco (20 miles) provides additional employment opportunities. West's major employers include the West Independent School District, West Rest Haven Nursing Home, and Jupe feed mill.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. This contact is an official for the City of West and stated that there were no unmet credit needs in the city. The contact further stated that SNB is active in the community and responsive to local credit needs.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

*Management has been successful in meeting the credit needs of their AAs consistent with their resources and capabilities.* Our findings were based on an analysis of the bank’s lending with respect to consumer, residential mortgage, and commercial loan originations. As these product lines represent approximately 64% of the bank’s loan portfolio by dollar volume, our analysis was focused on the bank’s lending performance with respect to these products.

## **Loan-to-Deposit Ratio**

*SNB’s LTD ratio is considered satisfactory, given its asset size, financial condition, and lending opportunities in the AA.* Since the last CRA examination in August 2003, the LTD ratio has remained relatively stable at 28% as of June 30, 2007. The average LTD ratio over the past 16 quarters was 28%, which has remained unchanged from the ratio achieved during the previous evaluation. Such performance is consistent and reasonable given the stable local economy, available loan demand in the AA, and SNB’s proximity to a highly competitive Waco market. Also, the LTD ratio is reasonable when compared with other banks headquartered in the AA. During the period from July 2003 through June 2007, competing banks had LTD ratios ranging from 19% to 31%. It should be noted that Citizens National Bank is located in Hillsboro, and has access to a larger market with greater lending opportunities. The asset size and LTD ratio for SNB and its three competing banks during this period are listed in the table below.

<b>Institution</b>	<b>Assets as of 6/30/07*</b>	<b>Average LTD Ratio%**</b>
Citizens National Bank (Hillsboro)	90M	30.92
First National Bank (Whitney)	48M	24.15
Pointwest Bank & Trust (West)	48M	19.28
<i>State National Bank (West)</i>	<i>46M</i>	<i>27.52</i>

\* Asset sizes of institutions are in thousands (000's). Assets for SNB are as of June 2007.

\*\*The average LTD ratio is based on the period between July 2003 and June 2007.

## **Lending in Assessment Area**

*A majority of the bank’s loans are made within its AA.* In order to assess performance for this criterion, we sampled 25 consumer and 28 commercial loans made between 2005 and 2006, and all mortgage-related loans originated during 2005 and 2006 that were reported on the Home Mortgage Disclosure Act (HMDA) Loan Application Register.

**TOTAL LOANS REVIEWED**

Loan Type	In Assessment Area				Out of Assessment Area			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential RE	35	80	579	80	9	20	144	20
Consumer	20	80	122	77	5	20	36	20
Commercial	20	71	248	56	8	29	193	44
<b>Total Reviewed</b>	<b>75</b>	<b>77</b>	<b>949</b>	<b>72</b>	<b>22</b>	<b>23</b>	<b>373</b>	<b>28</b>

## Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The majority of commercial/industrial and consumer loans were originated in the MSA AA; therefore, we analyzed these loans using the MSA business revenues and median family income figures, respectively. SNB's residential real estate loans were split between both the MSA and non-MSA AAs. As a result, we analyzed the residential real estate loans using the median family income of the AA in which they were originated.

***Our analysis determined that SNB lends to borrowers of various income levels and businesses of different sizes.*** SNB's loan portfolio reflects a satisfactory distribution of consumer and mortgage loans to individuals of various income levels and loans to businesses of different sizes within the AA. In order to assess the bank's performance, we used HMDA information relative to mortgage-related loans originated between 2005 and 2006 and a sample of 25 consumer and 28 commercial loans originated over the same time period.

Census demographic data was used to identify the percentage of families and households within low- to moderate-income levels. ***SNB's lending performance to low- to moderate-income groups meets the standards for satisfactory performance.*** The following tables reflect the bank's lending performance in residential real estate, consumer, and commercial loans as it relates to AA demographics.

RESIDENTIAL REAL ESTATE – MSA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	15		16		25		44	
	% of Number	% of Amount						
<b>Total 2005 – 2006</b>	12	4	24	18	28	16	36	62

*Families are defined as "Householders related by birth, marriage, or adoption."*

***SNB's residential real estate lending in the MSA AA meets the standards for satisfactory performance.*** Census demographics indicate that 31% of the MSA AA consists of low- or moderate-income families. Comparatively, SNB originated 36% of sampled loans secured by residential real estate to low- to moderate-income borrowers.

RESIDENTIAL REAL ESTATE – NON-MSA
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<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Families</i>	18		16		21		45	
	<i>% of Number</i>	<i>% of Amount</i>						
<i>Total 2005 – 2006</i>	10	2	20	7	20	8	50	83

*Families are defined as "Householders related by birth, marriage, or adoption."*

***SNB's residential real estate lending in the non-MSA AA also meets the standard for satisfactory performance.*** Census demographics indicate that 34% of the non-MSA AA consists of low- or moderate-income families. Comparatively, SNB originated 30% of sampled loans secured by residential real estate to low- to moderate-income borrowers.

<b>CONSUMER – MSA</b>								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	18		15		18		49	
	<i>% of Number</i>	<i>% of Amount</i>						
<i>Total 2005 – 2006</i>	25	35	30	23	30	20	15	22

*A household is defined as "All persons occupying a housing unit."*

***SNB's level of consumer lending to borrowers of different incomes within the MSA AA exceeds the standards for satisfactory performance.*** Demographic information indicates 18% of the AA households are low-income, while 15% are moderate-income. The bank originated 25% of its consumer loans to low-income borrowers and 30% to moderate-income borrowers.

<b>MSA DISTRIBUTION OF LOANS TO BUSINESSES</b>		
<i>Business Revenues</i>	<i>≤\$1,000,000</i>	<i>&gt;\$1,000,000</i>
<i>% of AA Businesses</i>	93	7
<i>% of Bank Loans in AA #</i>	100	0
<i>% of Bank Loans in AA \$</i>	100	0

***SNB originates a satisfactory number of commercial loans, most of which have been to small businesses with revenues less than \$1 million.*** Management continues to focus on providing loans that will enhance the local economy. The table above reflects our analysis of 29 commercial loans originated during the prior two-year period.

### **Geographic Distribution of Loans**

As previously mentioned, when describing the AAs, all six census tracts are either middle-or upper-income areas. With an absence of low- to moderate-income geographies, an assessment of loan distribution by geographic area would not provide for a meaningful analysis.

### **Responses to Complaints**

No CRA or unresolved consumer complaints have been identified since our prior examination.

### **Fair Lending or Other Illegal Credit Practices Review**

SNB has not been subjected to a Fair Lending review. However, based on our review of complaint records and consumer files during this evaluation period, we found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.